



**LOUISIANA & TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE
ASSOCIATION AND SUBSIDIARY
HOUMA, LOUISIANA**

**Financial Statements and
Supplementary Information**

Year Ended December 31, 2010

**Lanaux & Felger
A Corporation of
Certified Public Accountants
Houma, Louisiana**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date SEP 14 2011

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
HOUMA, LOUISIANA

Financial Statements and Independent Auditor's Report

Year Ended December 31, 2010

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LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
HOUMA, LOUISIANA

Directors, Officers, and Management

December 31, 2010

DIRECTORS

<u>NAME</u>	<u>ADDRESS</u>	<u>PRINCIPAL BUSINESS</u>
Glenn Acosta	Stephensville, Louisiana	Self-employed
Tracy Benoit Duval	Amelia, Louisiana	Self-employed
Roger Dale Dehart	Theriot, Louisiana	Self-employed
Larry J. Daigle	Gray, Louisiana	Produce Buyer
Alexander Doyle	Houma, Louisiana	Legal Attorney
J. D. Boudreaux	Donner, Louisiana	Retired
David Luke	Houma, Louisiana	Seafood Processor
Brian Rivet	Gheens, Louisiana	Self-employed
Terry Trahan	Bayou Black, Louisiana	Retired

ADVISOR TO THE BOARD

Lloyd Gibson

OFFICERS AND MANAGEMENT

Alexander Doyle	President
David Luke	Vice-President
Brian Rivet	Secretary
Terry Trahan	Treasurer
Michael J. Guidry	General Manager

5779 Hwy. 311
P. O. Box 3695
HOUMA, LOUISIANA 70361-3695
TELEPHONE (985) 851-0883
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Lanaux & Felger

— CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

THOMAS J. LANAUX, CPA
MARK S. FELGER, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
South Louisiana Electric Cooperative Association and Subsidiary
Houma, Louisiana

We have audited the accompanying consolidated balance sheets of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association (Cooperative) and Subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of revenue and expenses, equities and margins and comprehensive income, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Total Environmental Solutions, Inc., a wholly owned subsidiary, which statements reflect total assets of \$23,125,810 and \$23,911,355 as of December 31, 2010 and 2009, respectively, and total revenues of \$13,159,333 and \$13,308,071, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Total Environmental Solutions, Inc. as of December 31, 2010 and 2009, and for the years then ended, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association and Subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The other auditor's report on the 2010 and 2009 financial statements of Total Environmental Solutions, Inc. included an explanatory paragraph describing conditions that raised substantial doubt about its ability to continue as a going concern, as discussed in Note 3 to the financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated May 9, 2011, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

May 9, 2011

A handwritten signature in black ink, appearing to read "Lanaux" followed by a stylized flourish or initials.

LOUISIANA & TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Balance Sheets

December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Utility plant:		
Electric plant in service	\$ 104,480,636	\$ 96,319,834
Construction work in progress	4,211,069	9,958,816
Water and waste water	<u>33,951,314</u>	<u>33,191,125</u>
	142,643,019	139,469,775
Less accumulated depreciation	<u>(47,231,813)</u>	<u>(45,560,988)</u>
Net utility plant	<u>95,411,206</u>	<u>93,908,787</u>
Investments in associated organizations	<u>2,118,631</u>	<u>2,035,473</u>
Current assets:		
Cash and cash equivalents	886,015	1,400,149
Restricted cash	<u>2,500</u>	<u>71,033</u>
Total cash and cash equivalents	888,515	1,471,182
Accounts receivable:		
Consumers, less allowance for doubtful accounts of \$1,819,803 in 2010; \$1,548,335 in 2009	3,119,953	2,707,488
Accrued unbilled revenue	1,942,244	2,243,973
Other accounts receivable	3,220,767	3,763,226
Materials and supplies inventories	1,724,264	1,474,851
Prepayments	<u>763,459</u>	<u>886,752</u>
Total current assets	<u>11,659,202</u>	<u>12,547,272</u>
Other assets:		
Deferred charges, net of amortization	486,421	663,282
Other assets	<u>315,630</u>	<u>282,070</u>
	802,051	945,332
Total assets	<u>\$ 109,991,090</u>	<u>\$ 109,436,864</u>

See notes to financial statements.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Balance Sheets, Continued

December 31, 2010 and 2009

LIABILITIES AND OTHER CREDITS

	<u>2010</u>	<u>2009</u>
Equities and margins:		
Memberships	\$ 79,245	\$ 78,795
Patronage capital	47,443,885	48,304,959
Other equities (deficits)	(1,066,145)	(824,563)
Accumulated other comprehensive income (loss)	<u>(5,267,400)</u>	<u>(4,563,400)</u>
Total equities and margins	<u>41,189,585</u>	<u>42,995,791</u>
Long-term obligations, net of current maturities:		
Notes and capital leases payable, less current maturities	23,727,538	20,797,544
Deferred interest payable	<u>1,520,801</u>	<u>1,842,799</u>
Long-term obligations, net	<u>25,248,339</u>	<u>22,640,343</u>
Current liabilities:		
Current maturities of long-term obligations	18,579,521	19,189,668
Lines of credit	3,099,913	4,349,913
Note payable - insurance	414,411	497,355
Accounts payable:		
Purchased power	2,426,688	2,306,415
Other	1,633,985	1,377,346
Consumer deposits	1,875,531	1,850,359
Accrued expenses	967,517	1,001,374
Accumulated employee benefit liability	<u>375,000</u>	<u>330,200</u>
Total current liabilities	<u>29,372,566</u>	<u>30,902,630</u>
Other liabilities:		
Deferred income taxes	1,228,000	1,397,000
Accumulated employee benefit liability	<u>12,952,600</u>	<u>11,501,100</u>
Total other liabilities	<u>14,180,600</u>	<u>12,898,100</u>
Total liabilities and other credits	<u>\$ 109,991,090</u>	<u>\$ 109,436,864</u>

See notes to financial statements.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Statements of Revenue and Expenses

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 56,580,462	\$ 54,226,845
Operating expenses:		
Cost of power	28,854,935	26,897,686
Distribution expense	3,009,365	2,746,310
Consumer account expense	1,610,049	1,413,326
Customer sales and service	371,651	376,247
Depreciation and amortization	3,010,597	2,673,409
Water and waste water expenses	11,084,101	10,776,238
Other operating expenses	9,501	49,948
Taxes	132,626	222,836
Maintenance:		
Distribution and transmission system	2,328,527	1,887,969
General plant	399,640	330,901
Administrative and general:		
General office salaries and benefits	2,074,766	1,742,513
Property and liability insurance	109,326	143,584
Special services	292,590	218,564
Office supplies and expense	310,629	287,623
National, state and local meetings - directors and employees	181,731	161,819
Dues and subscriptions	245,357	225,929
Water and waste water expenses	1,899,642	1,779,552
Miscellaneous	113,910	120,116
	<u>56,038,943</u>	<u>52,054,570</u>
Operating margins	541,519	2,172,275
Interest expense	<u>2,601,078</u>	<u>2,564,912</u>
Net operating margins	<u>(2,059,559)</u>	<u>(392,637)</u>
Non-operating margins:		
Interest income	181,806	140,821
Loss on retirement of property	(55,457)	(84,746)
Other non-operating income (expenses), net	373,611	177,403
	<u>499,960</u>	<u>233,478</u>
	(1,559,599)	(159,159)
Patronage income:		
Cooperative capital credits - CFC	141,177	280,055
Patronage credits - Co-Bank	146,766	150,421
	<u>287,943</u>	<u>430,476</u>
Net margins before income tax	<u>(1,271,656)</u>	<u>271,317</u>
Income taxes:		
Deferred tax expense (benefit)	(250,000)	(41,000)
Valuation allowance	81,000	(169,000)
Total income tax expense (benefit)	<u>(169,000)</u>	<u>(210,000)</u>
Net margins	<u>\$ (1,102,656)</u>	<u>\$ 481,317</u>

See notes to financial statements.

LOUISIANA & TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Statements of Equities and Margins
and Comprehensive Income

Years Ended December 31, 2010 and 2009

	Memberships	Patronage Capital	Other Equities (Deficits)	Accumulated Other Comprehensive Income (Loss)	Total Equities and Margins	Comprehensive Income (Loss)
Balances at December 31, 2008	\$ 78,365	\$ 47,897,580	\$ (898,501)	\$ (721,374)	\$ 46,356,070	
Change in memberships	430	-	-	-	430	
Net margins for the year	-	407,379	73,938	-	481,317	\$ 481,317
Other comprehensive income:						
Defined benefit postretirement benefit plan:						
Net loss during the period	-	-	-	(4,070,026)	(4,070,026)	(4,070,026)
Amortization of actuarial gains (losses) included in postretirement benefit expense	-	-	-	228,000	228,000	228,000
Total comprehensive income						<u>\$ (3,360,709)</u>
Balances at December 31, 2009	78,795	48,304,959	(824,563)	(4,563,400)	42,995,791	
Change in memberships	450	-	-	-	450	
Net margins for the year	-	(861,074)	(241,582)	-	(1,102,656)	\$ (1,102,656)
Other comprehensive income:						
Defined benefit postretirement benefit plan:						
Net loss during the period	-	-	-	(985,700)	(985,700)	(985,700)
Amortization of actuarial gains (losses) included in postretirement benefit expense	-	-	-	281,700	281,700	281,700
Total comprehensive income						<u>\$ (1,806,656)</u>
Balances at December 31, 2010	\$ 79,245	\$ 47,443,885	\$ (1,066,145)	\$ (5,267,400)	\$ 41,189,585	

See notes to financial statements.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net margins	\$ (1,102,656)	\$ 481,317
Adjustments to reconcile net margins to net cash provided by operating activities:		
Provision for depreciation, and undepreciated costs on utility plant retirements	4,329,094	3,924,979
Provision for uncollectible accounts	158,556	(54,389)
Provision for amortization	430,625	546,803
Gain on disposition of assets	(284,198)	(36,735)
Provision for postretirement benefits	792,300	734,929
Deferred income tax benefit	(169,000)	(210,000)
Changes in operating assets and liabilities:		
Current assets	(980,605)	133,102
Current liabilities	21,057	(1,099,832)
Customer deposits	25,172	95,605
Net cash provided by (used in) operating activities	<u>3,220,345</u>	<u>4,515,779</u>
Cash flows from investing activities:		
Construction expenditures for utility plant	(7,156,214)	(10,516,759)
Proceeds from the sale of property	383,060	123,603
Proceeds from contributions in aid of construction	1,885,015	7,668,795
Patronage distribution, net	97,774	1,948
Net cash provided by (used in) investing activities	<u>(4,790,365)</u>	<u>(2,722,413)</u>
Cash flows for financing activities:		
Increases in membership and other equities	450	430
Increase (decrease) in short-term borrowings, net	(1,332,944)	(6,050,000)
Borrowings on notes payable	5,000,000	6,940,278
Retirement of long-term debt	(2,680,153)	(2,156,489)
Net cash provided by (used in) financing activities	<u>987,353</u>	<u>(1,265,781)</u>
Net increase (decrease) in cash and cash equivalents	(582,667)	527,585
Cash and cash equivalents at beginning of year	1,471,182	943,597
Cash and cash equivalents at end of year	<u>\$ 888,515</u>	<u>\$ 1,471,182</u>
Supplemental disclosures of cash flow information:		
Interest paid	\$ 2,601,078	\$ 2,564,912
Non-cash investing and financing activities:		
Retirement of plant assets, adjusted for removal costs and materials salvaged	\$ 1,791,272	\$ 1,299,292
Actuarial gains (losses) in postretirement benefit plan reported as component of comprehensive income	\$ (704,000)	\$ (3,842,026)

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements

1) Summary of Significant Accounting Policies

The following accounting policies and financial information of the Cooperative are set forth to facilitate the understanding of data presented in the financial statements.

- a) Organization and jurisdiction. South Louisiana Electric Cooperative Association ("Cooperative") was chartered in 1939 to provide electric service to rural member customers. At December 31, 2010, the Cooperative had approximately 1,435 miles of line providing service to approximately 26,228 members in a five parish area of South Louisiana. The Cooperative is subject to certain rules and regulations promulgated for rural electric borrowers by the RUS and is also subject to the jurisdiction of the Louisiana Public Service Commission (LPSC). The Cooperative's accounting policies conform to generally accepted accounting principles as applied in the case of Rural Electric Cooperatives.

Total Environmental Solutions, Inc., (TESI) a wholly owned subsidiary of the Cooperative was chartered in 2000 to purchase the assets of a water and waste water utility from the Bankruptcy Court of the Middle District of Louisiana. TESI provides water and waste water services to customers in Louisiana, Mississippi, North Carolina, South Carolina, and Pennsylvania.

- b) Consolidation. The consolidated financial statements include the accounts of the cooperative and its wholly owned Subsidiary, Total Environmental Solutions, Inc. Intercompany transactions and balances have been eliminated in consolidation.
- c) Utility plant and other property. The Cooperative's utility plant-in-service and other property are stated at cost. Depreciation is computed using the straight-line method over the expected useful lines of the related assets.

Retirement of plant assets is recorded at the average cost of the units retired as determined from the continuing property records maintained by the Cooperative. A corresponding amount, adjusted for costs of removal less materials salvaged, is charged to accumulated depreciation. Gains and losses on retirements are reflected in income through future depreciation charges.

TESI's property is stated at cost, less accumulated depreciation. Additionally, recognition has been provided for acquisition adjustments related to original costs of plant-in-service for utility plants in Pennsylvania as provided through the ratemaking process by the Pennsylvania Public Utility Commission. All property recorded is included in rates. Depreciation expense is computed principally by the straight-line method over the estimated useful lives of depreciable assets for financial statement purposes, whereas accelerated methods are used for income tax purposes. Gains and losses on asset sales or dispositions are reflected in the income statement.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

- d) Investments in associated organizations. The Cooperative has investments in CFC and other cooperatives in the form of patronage capital certificates and capital term certificates.

Patronage capital certificates are recorded as assets and income in the year issued. There are no dividends or interest that accrue on these certificates. Capital term certificates are interest bearing. Interest earned on these certificates is recorded in interest income.

- e) Materials and supplies inventories. Materials and supplies inventories are stated at cost using the weighted average cost method of inventory valuation.
- f) Revenue and cost recognition. The Cooperative recognizes revenues based on services rendered to customers during the year. This includes services on cycle-billings, which are not billed at year's end.
- g) Income taxes. The Cooperative is a nonprofit organization. An exemption from federal income taxes has been obtained from the Internal Revenue Service. Over 85% of the income is received from members of the Cooperative; therefore, no federal taxes are due. The Cooperative has not identified any uncertain tax positions that would jeopardize its status as tax-exempt.

The Cooperative's wholly owned Subsidiary, TESI, is taxed as a corporation for income tax purposes. TESI accounts for income taxes using the liability method. Temporary differences occur between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are recorded for these differences based on enacted tax rates and laws that will be in effect when the differences are expected to reverse.

- h) Cash equivalents. For purposes of the statement of cash flows, the Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.
- i) Advertising costs. Advertising costs are charged to operations when incurred, except for direct-response advertising. The costs of direct-response advertising are capitalized and amortized over the period which future benefits are expected to be received. There were no direct-response advertising costs incurred during the year. Advertising costs incurred and charged to operations were \$44,612 and \$72,992 for the years ended December 31, 2010 and 2009, respectively.

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SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

- j) Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2) Cash and Invested Cash

Deposits with banks are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2010, deposits with banks exceeded FDIC protection by approximately \$826,000.

3) Going Concern - Subsidiary

The Cooperative's wholly owned subsidiary, TESI, incurred a net loss before income taxes of approximately \$411,000 for 2010 and prior to 2010, incurred accumulated losses of approximately \$4,682,944. TESI has incurred substantial debt to fund operations and the acquisition of property. Furthermore, TESI is subject to regulatory mandates for environmental compliance as well as recurring system improvements. Historically, TESI has been unable to fund these expenditures from operations, thereby requiring additional debt and has not been released from regulatory oversight.

TESI is required to comply with debt covenants as defined in loan agreements; however, certain covenants have been violated during 2010 and prior years. TESI has been funded by new debt with limited guarantee by SLECA.

In October 2010, a petition for receivership was filed by the Mississippi Public Service Commission (MPSPSC) in the Jackson County Chancery Court due to customer complaints concerning water quality that were not resolved timely. If the MPSPSC is successful in obtaining receivership, the related utility plant will be placed in control of the party appointed as receiver. TESI will be required to compensate the receiver in addition to operating expenses of the utility systems. Due to the potential negative financial consequences, TESI is undergoing litigation which will be costly and the petition is a violation of certain debt covenants of TESI's loan agreement with its lenders.

During 2010, TESI had positive cash flow from operations of approximately \$1,108,000. In 2006 TESI incurred a net loss before income taxes in excess of \$1 million which created negative cash flow that required use of the line of credit available through CoBank and SLECA. SLECA acquired debt with CoBank and was lending such amounts to TESI as needed. TESI is paying SLECA the interest charged by CoBank, which TESI has been successful in recovering through a rate surcharge for interest incurred through August 2006. During 2010, TESI borrowed an additional \$100,000

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Notes to Consolidated Financial Statements, Continued

from SLECA. To achieve long-term financial stability TESI must be successful in the following:

- Fee enhancements, subject to approval by state regulatory authorities, to increase revenue,
- Increase customer counts,
- Aggressive collection efforts on delinquent accounts,
- Cost-saving measures that include managing the level of capital cost to utility systems, and achieving operational cost efficiencies,
- Continued financial support, including debt guarantee, by SLECA,
- Metered rates in Mississippi,
- Successful results of the MSPSC receivership suit.

The ability of TESI to continue as a going concern is dependent upon the success of these actions. While plans for addressing operational and financial position issues are based on forward-looking events, management believes the effects of these actions will improve its operational performance and financial position.

The financial statements do not include any adjustments relating to the recoverability of recorded asset or liability amounts that might be necessary should TESI be unable to continue as a going concern.

4) Utility Plant

The following are the major classes of the utility plant as of December 31,:

	2010	2009
Distribution plant	\$ 87,844,523	\$ 84,185,365
Transmission plant	8,191,836	4,031,239
General plant	8,444,277	8,103,230
Water and waste water plant	33,951,314	33,191,125
	<u>138,431,950</u>	<u>129,510,959</u>
Construction work in progress	4,211,069	9,958,816
	<u>\$ 142,643,019</u>	<u>\$ 139,469,775</u>

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Notes to Consolidated Financial Statements, Continued

Depreciation is computed using the straight-line method at the following rates:

	<u>Percent</u>
Distribution plant	3.216
Transmission plant	2.748
Water and waste water plant	2.5 – 5.0
General plant:	
Office furniture and equipment	6.0 - 10.0
Transportation	10.0 - 33.3
Structure and improvements	2.400

Depreciation expense was \$4,329,094 and \$3,924,978 for 2010 and 2009, respectively.

In accordance with regulatory accounting, certain assets reflected in water and wastewater plants relate to the recognition of adjustments for original costs of plant-in-service for utility plants in Pennsylvania as provided through the ratemaking process by the Pennsylvania Public Utility Commission. Accordingly, net plant in service assets for TESI of approximately \$5,150,000 has been recognized.

5) Investments in Associated Organizations

Investments in associated organizations include the following at December 31,:

	<u>2010</u>	<u>2009</u>
Patronage capital credits from CFC	\$ 285,521	\$ 249,590
Investment in capital term certificates of CFC	1,494,579	1,494,579
Other investments in cooperatives	338,531	291,304
	<u>\$ 2,118,631</u>	<u>\$ 2,035,473</u>

6) Accounts Receivable Consumers

Accounts receivable consumers at December 31, 2010 and 2009, consisted of the following:

	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Accounts Receivable Net</u>
<u>2010</u>			
Electric consumers - SLECA	\$ 2,669,543	\$ 181,346	\$ 2,488,197
Water and wastewater consumers - TESI	2,270,213	1,638,457	631,756
Total	<u>\$ 4,939,756</u>	<u>\$ 1,819,803</u>	<u>\$ 3,119,953</u>
<u>2009</u>			
Electric consumers - SLECA	\$ 2,162,340	\$ 179,732	\$ 1,982,608
Water and wastewater consumers - TESI	2,093,483	1,368,603	724,880
Total	<u>\$ 4,255,823</u>	<u>\$ 1,548,335</u>	<u>\$ 2,707,488</u>

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Notes to Consolidated Financial Statements, Continued

The Company does not require collateral on its receivables; however, a deposit is collected from customers which may be used to satisfy outstanding receivables.

7) Details of Patronage Capital

	<u>2010</u>	<u>2009</u>
Assignable	\$ (861,074)	\$ 407,379
Assigned	<u>48,304,959</u>	<u>47,897,580</u>
	<u>\$ 47,443,885</u>	<u>\$ 48,304,959</u>

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed 40 percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25 percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 36 and 39 percent of the total assets at December 31, 2010 and 2009, respectively.

9) Details of Other Equities (Deficits)

	<u>2010</u>	<u>2009</u>
Retained capital credit gain	\$ 183,282	\$ 183,282
Capital gains and losses	5,986	5,986
Donated capital	6,761	6,761
Acquisition adjustment and equity in		
undistributed earnings (loss) of subsidiary	<u>(1,262,174)</u>	<u>(1,020,592)</u>
	<u>\$ (1,066,145)</u>	<u>\$ (824,563)</u>

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

10) Insurance Note Payable and Lines of Credit

TESI financed insurance premiums and rate case costs with short-term financing arrangements:

	<u>2010</u>	<u>2009</u>
TESI notes payable:		
Financed insurance, due in 10 monthly installments of \$51,131, including interest at 2%.	\$ 354,321	\$ 401,579
Financed insurance (2 non-interest bearing policies), due in 10 monthly installments from \$2,530 to \$6,580.	60,090	75,498
Financed rate case costs (2 notes), due in 12 monthly installments of \$1,401 and \$3,450, including interest from 0% to 6%.	-	20,278
Total	<u>\$ 414,411</u>	<u>\$ 497,355</u>

At December 31, the Cooperative had lines of credit as follows:

	<u>2010</u>	<u>2009</u>
Cooperative debt:		
\$5,000,000 line of credit with CoBank, variable interest only payments (3.02% and 3.24% at December 31, 2010 and 2009, respectively), due September 1, 2011. The line of credit is unsecured.	\$ 3,099,913	\$ 2,999,913
\$6,000,000 line of credit with National Rural Utilities Cooperative Finance Corporation, variable interest only payments (4.95% at December 31, 2009), due October 6, 2010. The line of credit is unsecured.	-	1,350,000
Total Cooperative debt	<u>\$ 3,099,913</u>	<u>\$ 4,349,913</u>

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

11) Long-Term Obligations

Long-term debt as of December 31 follows:

	2010	2009
Cooperative debt:		
Rural Utilities Services, 2% to 5% mortgage notes, due in quarterly principal and interest installments of approximately \$500,232 through 2042.	\$17,803,727	\$14,095,999
National Rural Utilities Cooperative Finance Corporation, 2.85% to 7.3% mortgage notes, due in quarterly principal and interest installments of approximately \$284,044 through 2036.	7,836,084	8,456,216
Total Cooperative debt	<u>25,639,811</u>	<u>22,552,215</u>
TESI debt:		
CoBank 7.4% fixed interest rate due in monthly interest and principal payments of \$113,125 through June 20, 2028, secured by property and limited guarantees by SLECA.	13,184,524	13,520,256
CoBank variable interest rate (2.77% at December 31, 2010) due in monthly installments of principal and interest payments, secured by property and limited guarantee by SLECA.	1,263,801	1,311,763
Pennsylvania Infrastructure Investment Authority construction loan, secured by property and limited guarantee by SLECA (See detailed explanation below).	1,978,199	2,127,660
Capital leases payable (14) in 36 to 60 monthly payments from \$68 - \$1,231 each, maturing from April 2009 to October 2013, bearing interest from 0% to 32%, collateralized by equipment.	240,724	475,319
Total TESI long-term debt	<u>16,667,248</u>	<u>17,434,998</u>
Total long-term debt	<u>42,307,059</u>	<u>39,987,213</u>
Less: Current maturities or Cooperative debt	(1,912,273)	(1,754,670)
Less: TESI debt, current due to default	<u>(16,667,248)</u>	<u>(17,434,998)</u>
Total current maturities of long-term debt	<u>(18,579,521)</u>	<u>(19,189,668)</u>
Total long-term debt, net of current maturities	<u>\$23,727,538</u>	<u>\$20,797,545</u>

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

11) Long-Term Obligations (continued)

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes.

Interest incurred and charged to expense on notes payable was \$2,550,406 and \$2,564,912 for the years ended December 31, 2010 and 2009, respectively.

Loans totaling \$2,914,000 have been approved by CFC and RUS to fund future construction projects.

Under TESI's loan agreements, TESI is required to maintain certain operating financial ratios as well as other restrictive covenants and customary conditions to prevent default. During 2010 and 2009, certain covenant violations occurred related to failure to maintain satisfactory financial ratios and various required reporting to the lenders. A waiver was not sought from the lender; therefore, all debt has been classified as current. Scheduled maturities of long-term debt follow:

	SLECA	TESI	TOTAL
2011	\$ 1,912,273	\$ 661,297	\$ 2,573,570
2012	1,889,004	711,556	2,600,560
2013	1,871,172	638,708	2,509,880
2014	1,934,093	665,024	2,599,117
2015	1,870,902	13,990,663	15,861,565
Thereafter	16,162,367	-	16,162,367
	<u>\$ 25,639,811</u>	<u>\$ 16,667,248</u>	<u>\$ 42,307,059</u>

TESI's loan with CoBank of \$14,000,000 is scheduled to mature through 2028 and was restricted to re-finance certain debt owed. Additionally, TESI has a multiple advance loan (\$2,000,000) for the acquisition and upgrade of TESI's water and sewer facilities and working capital needs. As of December 31, 2010, TESI had \$736,199 available on the multiple advance loan. SLECA has guaranteed \$7,000,000 of TESI's loan with CoBank. SLECA's future guarantee of debt can be reduced to \$4,000,000 if certain financial ratios are achieved; however, such ratios were not achieved at December 31, 2010. Additionally, CoBank issued TESI irrevocable letters of credit in the amount of \$3,952,841, for the purpose of supporting TESI's obligation for certain consent decrees, SLECA and Penn Vest (see below).

TESI has a multiple advance construction loan of \$3,108,000 with the Pennsylvania Infrastructure Investment Authority (PennVest) dated September 2002, bearing interest at a varying rate (1.156% at December 31, 2010) and scheduled to mature in March 2023. The loan is payable in equal monthly installments of principal and interest of \$14,439. SLECA has guaranteed this loan.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

The debt, as disclosed above, is secured by property described in Note 4.

12) Provision for Income Taxes

The subsidiary's provision for income taxes consisted of the following:

	<u>2010</u>	<u>2009</u>
Current tax provision:		
Deferred income tax expense (benefit)	\$(204,000)	\$ (41,000)
Valuation allowance	81,000	(169,000)
Income tax expense (benefit)	<u>\$(123,000)</u>	<u>\$(210,000)</u>

The subsidiary's tax affect of temporary differences that give rise to significant portions of the deferred tax asset are as follows:

	<u>2010</u>	<u>2009</u>
Current deferred tax assets:		
Allowance for doubtful accounts receivable and impaired inventory	\$ (515,000)	\$ 434,000
Valuation allowance - current	515,000	(434,000)
	<u>\$ -</u>	<u>\$ -</u>
Noncurrent net deferred tax liability:		
Depreciation - regulatory assets	\$ (1,828,000)	\$ (1,133,000)
Depreciation - difference in method	(77,000)	(804,000)
Net operating loss carryforward	1,277,000	1,140,000
Valuation allowance - noncurrent	(600,000)	(600,000)
Net deferred tax liability	<u>\$ (1,228,000)</u>	<u>\$ (1,397,000)</u>

At December 31, 2010, TESI has net operating loss carryforwards of approximately \$4 million that will expire from 2021 through 2030. The value of the income tax savings resulting from the use of the net operating loss carryforwards to reduce future taxable income is approximately \$1,277,000. This amount has been reduced by a valuation allowance of a comparable amount due to the uncertainty of TESI to achieve adequate net income to realize the benefit of the net operating loss carryforwards.

TESI's effective tax rate differs from the federal statutory rate, primarily due to lower rates on the first \$100,000 of taxable income, certain nondeductible expenses, state income taxes/(benefits) and changes in the valuation allowance of doubtful accounts.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

13) Deferred Charges

The subsidiary records assets that result from the regulated ratemaking process that would not be recorded under generally accepted accounting principles for non-regulated entities. TESI has recorded deferred charges for amortizable professional fees incurred relating to rate applications and proceedings to establish increased rates for water and wastewater services.

During 2006 TESI incurred fees resulting from refinancing long-term debt, and such fees have been deferred and are being amortized over 264 months, which is the term of the new debt.

Deferred charges and accumulated amortization at December 31, 2010 and 2009 consisted of:

	2010	2009
Rate case costs	\$ 1,235,645	\$ 1,056,562
Storm recovery cost	-	1,014,063
Debt acquisition costs	248,506	248,506
	1,484,151	2,319,131
Less accumulated amortization	(997,730)	(1,655,869)
Deferred charges, net	<u>\$ 486,421</u>	<u>\$ 663,262</u>

Amortization expense was \$430,625 and \$546,803 for 2010 and 2009, respectively.

14) Employee Retirement Benefits

NRECA Retirement and Security Program. Substantially all of the Cooperative's employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. The program is a multi-employer defined benefit master pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The basic benefit payable upon attainment of the normal retirement age is based on the highest five-year average of the base compensation during the last ten years of participation. Normal retirement age can be 62, or the earlier of age 62 or any age with thirty years of participation, as elected by the system. Benefits derived from employee contributions are fully vested. A portion of the benefits provided by system contributions is vested, increased at 10% a year after the first year of service to 100% after five years of service or at age 55.

The actuarial cost method used to determine the Cooperative's contributions necessary to meet ERISA funding requirements is the entry age normal cost method. The Cooperative made annual contributions to the Program equal to the amounts accrued for pension expense. The Cooperative's pension contribution under this plan for 2010

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

and 2009 was \$1,192,219 and \$814,263, respectively, of which a portion was capitalized to construction work in progress based on payroll costs. In this multi-employer plan, the accumulated benefits and plan assets are not maintained separately by individual employers.

SelectRE Pension Plan (401K Savings Plan). The Plan is a multi-employer defined contribution master pension plan. The Cooperative matches employee contributions up to 3% of an employee's annual base compensation. The Cooperative's pension contribution under the Savings Plan for 2010 and 2009 was \$123,473 and \$130,073, respectively, of which a portion was capitalized to construction work in progress based on payroll costs.

Post-Retirement Health Care. The Cooperative also provides certain medical and dental benefits for retired employees and directors. The Cooperative pays the cost for retired employees as follows: years of service 8 through 15 - 25%; years 16 through 20 - 50%; years 21 through 25 - 75%; and greater than 26 years of service - 100%.

The Cooperative funds these benefits on a pay-as-you-go basis. Benefits paid under the plan amounted to \$375,000 and \$330,200 for the years ended December 31, 2010 and 2009, respectively.

A summary of the components of the net periodic postretirement benefit cost for the years ended December 31, follows:

	2010	2009
Service cost - benefits earned during the period	\$ 198,300	\$ 179,900
Interest cost on APBO	687,300	657,300
Amortization of actuarial (gain)/loss	281,700	228,000
Net periodic postretirement benefit cost	<u>\$ 1,167,300</u>	<u>\$ 1,065,200</u>

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

The funded status of the Cooperative's postretirement plan is as follows at December 31,:

	2010	2009
Accumulated postretirement benefit obligation	\$ 13,327,600	\$ 11,831,300
Fair value of plan assets	-	-
Accumulated postretirement benefit obligation	<u>\$ 13,327,600</u>	<u>\$ 11,831,300</u>

Amounts included in accumulated other comprehensive income had not yet been recognized as components of postretirement benefit cost at December 31, follow:

	2010	2009
Actuarial loss	<u>\$ 5,267,400</u>	<u>\$ 4,563,400</u>

The assumed health care cost trend rate used in measuring the APBO was 8% for 2010 gradually decreasing each successive year until it reaches 5.0% in 2017. The assumed discount rate used in measuring the APBO was 6.0% for 2010 and 2009.

15) Other non-operating income (expense)

The significant components of other non-operating income consisted of the following for the years ended December 31,:

	SLECA	TESI	Total	
	2010	2009	2010	2009
Gain on sale of assets	\$ 8,000	\$ 331,655	\$ 339,655	\$ 121,481
Other	33,956	-	33,956	55,922
	<u>\$ 41,956</u>	<u>\$ 331,655</u>	<u>\$ 373,611</u>	<u>\$ 177,403</u>

16) Capital Leases

Certain property and equipment (\$1,074,777 and \$1,571,148 for 2010 and 2009, respectively) for TESI is accounted for under capital leases. Amortization of such automobiles is included in depreciation expense. Accumulated amortization for automobiles was \$817,666 and \$1,012,497 at December 31, 2010 and 2009, respectively.

17) Rates and Regulation

In 1989, the Louisiana Supreme Court ruled that the LPSC has plenary authority over all rural electric cooperatives in the State. In June 2000, the Cooperative's rate schedules were filed with LPSC.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

18) Contingencies

Several suits and claims arising in the ordinary course of operations are pending against TESI. The majority of these claims are covered by insurance or other defenses.

A petition for receivership was filed by the MSPSC in October 2010 in the Jackson County Chancery Court in Mississippi due to customer complaints concerning the quality of water. If the MSPSC is awarded receivership, the related utility assets will be placed under control of an appointed receiver, and TESI will be required to compensate such receiver. As mentioned in Note 3, TESI is currently litigating this matter.

TESI is a party to three consent decrees with various state and federal regulatory agencies. The consent decrees were entered into in conjunction with TESI's purchase of water and waste water assets from the bankruptcy court. The decrees state, among other things, that TESI will make necessary refurbishments to bring existing water and waste water systems into compliance with state and federal operating standards. It is the opinion of management that the refurbishments to meet the terms of the consent decrees can be completed within specified time limits. Costs associated with the refurbishments are expected to be capital in nature and will be capitalized as incurred.

Management of TESI is not aware of any unrecorded material environmental commitments or contingent environmental liabilities. Environmental contingencies have been mitigated by testing of the water and sewer systems on a regular basis and providing the test results to the proper environmental authorities.

The Cooperative is subject to other legal proceedings. In the opinion of management, the outcome of these proceedings will not materially affect the accompanying financial statements, and accordingly, no provision for any liability has been recorded.

19) Commitments

Under its wholesale power agreement, the Cooperative is committed to purchase all of its electric power and energy requirements from Louisiana Generating, L.L.C. for a twenty-five year period. The rates paid for such purchases are subject to review annually, and are regulated by the LPSC. Future operating results could be materially affected in the event of an interruption of the supply of electric power from the company.

20) Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and invested cash. For invested cash, the carrying amount is a reasonable estimate of fair value.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Notes to Consolidated Financial Statements, Continued

Short-term borrowings. The carrying amounts of lines of credit and other short-term borrowings approximate their fair value.

Long-term borrowings. The fair value of long-term debt is based on current rates at which the Cooperative could borrow funds with similar remaining maturities.

The fair value estimates presented are based on information available to management as of December 31, 2010 and 2009, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, these amounts have not been revalued for purposes of these financial statements since that date, and, therefore, current estimates of fair value may differ significantly from the amounts presented.

The estimated fair value of financial instruments, as of December 31, follows:

	(In Thousands) December 31, 2010		(In Thousands) December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and invested cash	\$ 886	\$ 886	\$ 1,471	\$ 1,471
Financial liabilities:				
Short-term borrowings	3,100	3,100	4,847	4,847
Long-term borrowings	43,828	38,002	41,830	38,464

Generally accepted accounting principles require disclosure of fair value information about financial instruments for which it is practical to estimate fair value. The aforementioned disclosures do not include estimated fair value for all non-financial instruments that are excluded from these disclosure requirements. Further, the disclosures do not include estimated fair value of items which are not financial instruments but which represent significant value to the Company. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

21) Subsequent Events

In preparing the financial statements, the Cooperative and TESI have evaluated events and transactions for potential recognition or disclosure through May 9, 2011 and March 15, 2011, respectively, the dates the financial statements were available to be issued.

**LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY**

**Supplementary Information
and Supplementary Financial Reports**

Year Ended December 31, 2010

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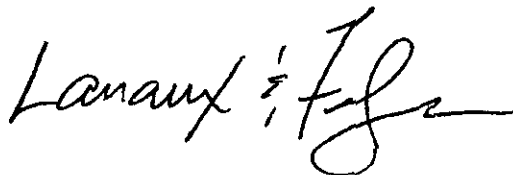
THOMAS J. LANAUX, CPA
MARK S. FELGER, CPA

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

The Board of Directors
South Louisiana Electric Cooperative Association and Subsidiary
Houma, Louisiana

We have audited the consolidated financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association and Subsidiary for the years ended December 31, 2010 and 2009, and our report thereon dated May 9, 2011, which expresses an unqualified opinion on those financial statements, appears on page 3. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The additional consolidating information for 2010 in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Total Environmental Solutions, Inc., is based on the report of other auditors, such information is fairly stated in all material respects in relation to the basic 2010 consolidated financial statements as a whole.

May 9, 2011



LOUISIANA & TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 1

Consolidating Balance Sheets

December 31, 2010

ASSETS

	<u>SLECA</u>	<u>TESI</u>	<u>Eliminations</u>	<u>Consolidated</u>
Utility plant:				
Electric plant in service	\$ 104,480,636	\$ -	\$ -	\$ 104,480,636
Construction work in progress	4,211,069	-	-	4,211,069
Water and waste water	-	33,951,314	-	33,951,314
	108,691,705	33,951,314	-	142,643,019
Less accumulated depreciation	(33,330,865)	(13,900,948)	-	(47,231,813)
Net utility plant	75,360,840	20,050,366	-	95,411,206
Investment in subsidiary	1,763,836	-	(1,763,836)	-
Investments in associated organizations	2,118,831	-	-	2,118,831
Total other property and investments	3,882,467	-	(1,763,836)	2,118,831
Current assets:				
Cash and invested cash	604,986	281,029	-	886,015
Restricted cash	2,500	-	-	2,500
Accounts receivable:				
Consumers, less allowance for doubtful accounts	2,488,197	631,756	-	3,119,953
Accrued unbilled revenue	1,549,244	393,000	-	1,942,244
Other accounts receivable	2,750,307	470,460	-	3,220,767
Materials and supplies inventories	1,638,900	85,364	-	1,724,264
Prepayments	324,983	438,476	-	763,459
Total current assets	9,359,117	2,300,085	-	11,659,202
Other assets:				
Notes receivable	1,048,813	-	(1,048,813)	-
Other assets	26,692	288,938	-	315,630
Deferred charges and other assets	-	486,421	-	486,421
Total other assets	1,075,505	775,359	(1,048,813)	802,051
Total assets	\$ 89,677,929	\$ 23,125,810	\$ (2,812,649)	\$ 109,991,090

LOUISIANA & TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 1
(continued)

Consolidating Balance Sheets, Continued

December 31, 2010

LIABILITIES AND OTHER CREDITS

	<u>SLECA</u>	<u>TESI</u>	<u>Eliminations</u>	<u>Consolidated</u>
Equities and margins:				
Memberships	\$ 79,245	\$ -	\$ -	\$ 79,245
Patronage capital	47,443,885	-	-	47,443,885
Other equities (deficits)	(1,066,145)	1,763,836	(1,763,836)	(1,066,145)
Accumulated other comprehensive income (loss)	(5,267,400)	-	-	(5,267,400)
Total equities and margins	<u>41,189,585</u>	<u>1,763,836</u>	<u>(1,763,836)</u>	<u>41,189,585</u>
Long-term obligations, net of				
current maturities:				
Notes and capital leases payable, net	23,727,538	-	-	23,727,538
Deferred interest payable	1,520,801	-	-	1,520,801
Long-term obligations, net	<u>25,248,339</u>	<u>-</u>	<u>-</u>	<u>25,248,339</u>
Current liabilities:				
Current maturities of				
long-term obligations	1,912,273	16,667,248	-	18,579,521
Other note payable	-	414,411	-	414,411
Lines of credit	3,099,913	-	-	3,099,913
Accounts payable:				
Purchased power	2,426,688	-	-	2,426,688
Other	517,483	2,165,315	(1,048,813)	1,633,985
Consumer deposits	988,531	887,000	-	1,875,531
Accrued expenses	967,517	-	-	967,517
Accumulated employee benefit liability	375,000	-	-	375,000
Total current liabilities	<u>10,287,405</u>	<u>20,133,974</u>	<u>(1,048,813)</u>	<u>29,372,566</u>
Other liabilities:				
Deferred income taxes	-	1,228,000	-	1,228,000
Accumulated employee benefit liability	12,952,600	-	-	12,952,600
Total other liabilities	<u>12,952,600</u>	<u>1,228,000</u>	<u>-</u>	<u>14,180,600</u>
Total liabilities and other credits	<u>\$ 89,677,929</u>	<u>\$ 23,125,810</u>	<u>\$ (2,812,649)</u>	<u>\$ 109,991,090</u>

LOUISIANA & TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 2

Consolidating Statements of Revenue and Expenses

Year Ended December 31, 2010

	<u>SLECA</u>	<u>TESI</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenue	\$ 43,421,129	\$ 13,159,333	\$ -	\$ 56,580,462
Operating expenses:				
Cost of power	28,854,935	-	-	28,854,935
Distribution expense	3,009,365	-	-	3,009,365
Consumer account expense	1,610,049	-	-	1,610,049
Customer sales and service	371,651	-	-	371,651
Depreciation and amortization	3,010,597	-	-	3,010,597
Water and waste water expenses	-	11,084,101	-	11,084,101
Other operating expenses	9,501	-	-	9,501
Taxes	132,626	-	-	132,626
Maintenance:				
Distribution and transmission system	2,328,527	-	-	2,328,527
General plant	399,640	-	-	399,640
Administrative and general:				
General office salaries and benefits	2,074,766	-	-	2,074,766
Property and liability insurance	109,326	-	-	109,326
Special services	292,590	-	-	292,590
Office supplies and expense	310,629	-	-	310,629
National, state and local meetings - directors and employees	181,731	-	-	181,731
Dues and subscriptions	245,357	-	-	245,357
Water and waste water expenses	-	1,899,642	-	1,899,642
Miscellaneous	113,910	-	-	113,910
	<u>43,055,200</u>	<u>12,983,743</u>	<u>-</u>	<u>56,038,943</u>
Operating margins	365,929	175,590	-	541,519
Interest expense	1,475,066	1,126,012	-	2,601,078
Net operating margins	<u>(1,109,137)</u>	<u>(950,422)</u>	<u>-</u>	<u>(2,059,559)</u>

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 2
(continued)

Consolidating Statements of Revenue and Expenses, Continued

Year Ended December 31, 2010

	<u>SLECA</u>	<u>TESI</u>	<u>Eliminations</u>	<u>Consolidated</u>
Non-operating margins:				
Interest income	64,930	116,876	-	181,806
Loss on retirement of property	-	(55,457)	-	(55,457)
Income (loss) from equity investments	(241,582)	-	241,582	-
Other non-operating income (expenses), net	41,956	331,655	-	373,611
	<u>(134,696)</u>	<u>393,074</u>	<u>241,582</u>	<u>499,960</u>
	<u>(1,243,833)</u>	<u>(557,348)</u>	<u>241,582</u>	<u>(1,559,599)</u>
Patronage income:				
Cooperative capital credits - CFC	141,177	-	-	141,177
Patronage income - Co-Bank	-	146,766	-	146,766
	<u>141,177</u>	<u>146,766</u>	<u>-</u>	<u>287,943</u>
Net margins before income tax	<u>(1,102,656)</u>	<u>(410,582)</u>	<u>241,582</u>	<u>(1,271,656)</u>
Income taxes:				
Deferred tax expense (benefit)	-	(250,000)	-	(250,000)
Valuation allowance	-	81,000	-	81,000
Total income tax expense (benefit)	<u>-</u>	<u>(169,000)</u>	<u>-</u>	<u>(169,000)</u>
Net margins	<u>\$ (1,102,656)</u>	<u>\$ (241,582)</u>	<u>\$ 241,582</u>	<u>\$ (1,102,656)</u>

**LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY**

Supplementary Financial Reports

Year Ended December 31, 2010

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2010

Federal Granting Agency/Recipient <u>State Agency/Grant Program</u>	GRANT NUMBER	CFDA NUMBER	REVENUE REALIZED	EXPENDITURE AMOUNT
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
<u>Pass through payment from Governor's Office of Homeland Security and Emergency Preparedness</u>				
<u>Public Assistance Grants:</u>				
Various projects	Various	97.036	\$ 902,318	\$ 902,318
Total - U. S. Dept. of Homeland Security			<u>902,318</u>	<u>902,318</u>
Total program revenue and expenditures			<u>\$ 902,318</u>	<u>\$ 902,318</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of South Louisiana Cooperative Association and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2010

A) SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association.
2. No deficiencies relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting on an Audit of Financial Statements in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association were disclosed during the audit.
4. No deficiencies relating to the audit of the major federal award programs are reported in the Report Compliance with Requirements Applicable to its Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association expresses an unqualified opinion.
6. No findings relative to the major federal award program for Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association are reported in Part C of this Schedule.
7. The following program was tested as a major program:
Department of Homeland Security
Public Assistance Grants
CFDA# 97.036
- A) The threshold for distinguishing Types A and B programs was \$300,000.
- B) The Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association was not determined to be a low-risk auditee.

B) FINDINGS – FINANCIAL STATEMENTS AUDIT

None.

C) FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None.

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— CERTIFIED PUBLIC ACCOUNTANTS —
A PROFESSIONAL CORPORATION

THOMAS J. LANAUX, CPA
MARK S. FELGER, CPA

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

The Board of Directors
South Louisiana Electric Cooperative Association
Houma, Louisiana

We have audited the financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated, May 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We did not audit the financial statements of the Cooperative's wholly-owned subsidiary, Total Environmental Solutions, Inc. These financial statements were audited by other auditors and our report on compliance and internal control over financial reporting does not include Total Environmental Solutions, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

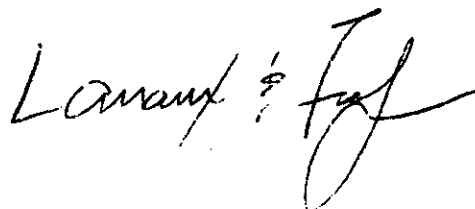
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association, in a separate letter dated May 9, 2011.

This report is intended solely for the information of the Board of Directors, management, the Rural Utilities Service, the Legislative Auditor for the State of Louisiana, supplemental lenders, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

May 9, 2011

A handwritten signature in black ink, appearing to read "L. Arant" followed by a stylized flourish.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors
South Louisiana Electric Cooperative Association
Houma, Louisiana

Compliance

We have audited the compliance of the Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association (a nonprofit organization) with the types of compliance described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2010. Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major program is the responsibility of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's management. Our responsibility is to express an opinion on Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 required that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's compliance with those requirements.

In our opinion, Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

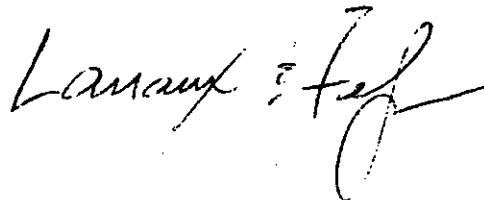
The management of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over compliance with requirements that could have a direct and material effect on a major program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of the Board of Directors, management, the Rural Utilities Service, the Legislative Auditor for the State of Louisiana, supplemental lenders, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

May 9, 2011



**LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC
COOPERATIVE ASSOCIATION
HOUMA, LOUISIANA**

Management Letter

December 31, 2010

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MARK S. FELGER, CPA

May 9, 2011

The Board of Directors
South Louisiana Electric Cooperative Association
Houma, Louisiana

We have audited the financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association ("Cooperative") and Subsidiary for the year ended December 31, 2010, and have issued our report thereon dated May 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

We did not audit the financial statements of Total Environmental Solutions, Inc., a wholly owned subsidiary. Those statements were audited by other auditors whose report was furnished to us. The other auditors issued a report dated March 15, 2011 indicating material weaknesses in internal control regarding financial reporting, operating and capital budgets, and controls over various account balances and transactions classes. This letter does not address any of the matters included in the report issued by the other auditors.

In planning and performing our audit of the financial statements of the Cooperative for the year ended December 31, 2010, we considered internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

7 CFR Part 1773.33 requires comments on specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and additional matters. The specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33 (e)(1), related party transactions, depreciation rates, and a schedule of deferred debits and credits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports other than our independent auditors' report, independent auditors' report on additional information, report on internal control over financial reporting and on compliance and other matters, communications with those charged with governance required by auditing standards generally accepted in the United States of America, all dated May 9, 2011, or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters, except as noted below, regarding the Cooperative's internal control over financial reporting and its operations that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- The process for accumulating and recording labor, material, and overhead costs and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- The materials control.

We did, however, observe the following:

Patronage Capital Credits Assigned

As we noted in prior years, the Cooperative lost its electronic computer file of Patronage Capital Credits Assigned for the years from 1969 to 1986. We understand that the file was corrupted during computer backup procedures. The Cooperative has a hard copy record of the above patronage capital credits and has begun restoring its computer files to facilitate any future adjustments and/or payments of capital credits. Some progress was made in restoring these electronic computer files in 2010 and the Cooperative should continue working to complete this process as quickly as possible.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditor's report on internal control over financial reporting and on compliance and other matters dated May 9, 2011, and should be read in conjunction with this report. At your request, we have performed procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for use of mortgaged property by others for the year ended December 31, 2010 of the Cooperative:
 1. Obtained and read a borrower-prepared schedule of new written contracts entered into during the year for the operation or maintenance of all or any part of its property, or for the use of its property by others as defined in § 1773.33 (e) (1) (ii) (There were none noted).
 2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule. (There were none noted).
 3. Noted the existence of written RUS approval of each contract listed by the borrower. (There were no contracts noted requiring RUS approval.)
- Procedure performed with respect to the requirement to submit RUS Form 7 to the RUS.

1. Agreed amounts reported in Form 7 to the Cooperative's records.

The results of our tests indicate that, with respect to the items tested, the Cooperative complied, in all material respects except as noted, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower, when applicable, has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in § 1773.33 (e) (1) (ii); and
- The borrower has submitted its Form 7 to the RUS and the Form 7, Financial and Statistical Report as of December 31, 2010. The Form 7 submitted to the RUS agreed with the Cooperative's audited records, except as follows:
 - Equity in the loss of its subsidiary was not included on the Form 7. The Cooperative wholly owned subsidiary's financial data was not available prior to the deadline for filing the Form 7.
 - Gross additions and retirements of utility plant are overstated in Form 7, Part E – Changes in Utility Plant, but the net change and the ending balances were correctly reported on the form. The difference is due to a computer software conversion during the year. The balances transferred from the old system to the new system were reported in both the additions and retirements columns in Part E.

The Cooperative will file an amended Form 7, which will include the financial information of the subsidiary and the correction of gross additions and retirements in Part E, after the completion of the audit.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of the Cooperative, nothing came to our attention that caused us to believe that the Cooperative failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);
- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2). However, we did note several workorders totaling approximately \$1,200,000 in which there has been no activity in at least one year. Based on our inquiries of management, it appears that most of these workorders involve abandoned projects or projects that have been temporarily suspended because of hurricane damage repair work. We have provided management with a listing of these workorders and we

recommend that it be reviewed to determine the proper disposition of these workorders;

- The retirement of plant addressed at 7 CFR 1773.33 (c)(3) and (4);
- Sales of plant material, or scrap addressed at 7 CFR 1773.33 (c)(5);
- The disclosure of material related party transactions, in accordance with FASB ASC 850-10-50, for the year ended December 31, 2010, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (f);
- The depreciation rates addressed at 7 CFR 1773.33 (g);
- The detailed schedule of deferred debits and deferred credits. (The Cooperative did not have any deferred debits or deferred credits on its books that required RUS approval as of December 31, 2010.)

OTHER AUDIT FINDINGS

2010-1 Audit Submission

Louisiana Revised Statutes require the annual audit of quasi-public entities (prepared by a duly qualified certified public accountant) to be filed with the Louisiana Legislative Auditor within six months after the close of the audit period. SLCEA did not file its audit report within the six month time period because it requested an extension of time to file pending a determination of whether it was a quasi-public entity as defined by the Louisiana Revised Statutes. SLECA was granted an extension of time to file the audit by August 31, 2011. Subsequently, the Legislative Auditor determined that SLECA is a quasi-public entity and is required to file its audit under Louisiana Revised Statute 24:513. Management expects to meet the extended deadline and considers this matter to be resolved.

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service, the Legislative Auditor for the State of Louisiana, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Very truly yours,


Lanaux & Felger